

THE BUSINESS SITUATION

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the fourth quarter of 1994 is 5.1 percent, 0.5 percentage point higher than the "preliminary" estimate reported in the February "Business Situation" (table 1).¹ The "final" estimates show a picture of stronger

1. Quarterly estimates in the national income and product accounts are expressed at seasonally adjusted annual rates, and quarterly changes are differences between these rates. Quarter-to-quarter percent changes are annualized. Real, or constant-dollar, estimates are expressed in 1987 dollars and are based on 1987 weights.

economic activity, with higher fixed investment and lower imports, than was shown in February. In the fourth quarter, personal consumption expenditures and producers' durable equipment more than accounted for the increase in real GDP. Net exports of goods and services, nonresidential structures, and residential investment also increased; government purchases and inventory investment decreased.

The largest upward revisions were to net exports of goods and services (\$2.5 billion) and to nonresidential fixed investment (\$2.3 billion); the largest downward revision was to government purchases (\$0.8 billion). In net exports, nearly all the revision was to imports, mainly to imports of travel services. In nonresidential investment, three-fourths of the revision was to producers' durable equipment, mainly to aircraft and to motor vehicles. In government purchases, the revision was more than accounted for by Federal nondefense purchases.

The final estimate of real gross domestic purchases shows a 4.2-percent increase, 0.3

Table 1.—Revisions to Real Gross Domestic Product and Prices, Fourth Quarter 1994

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	4.6	5.1	0.5	6.6
Less: Exports of goods and services	20.1	20.2	.1	.1
Goods	24.1	24.6	.5	.5
Services	8.7	7.6	-1.1	-.4
Plus: Imports of goods and services	12.8	11.4	-1.4	-2.4
Goods	13.4	13.2	-.2	-.3
Services	8.7	.7	-8.0	-2.1
Equals: Gross domestic purchases	3.9	4.2	.3	4.1
Personal consumption expenditures	5.0	5.1	.1	.5
Durable goods	20.3	20.4	.1	.2
Nondurable goods	3.3	3.1	-.2	-.5
Services	2.1	2.3	.2	.8
Fixed investment	12.1	13.6	1.5	3.1
Nonresidential	16.1	17.6	1.5	2.3
Structures	9.3	11.0	1.7	.6
Producers' durable equipment	18.2	19.6	1.4	1.7
Residential .....	.7	2.3	1.6	.9
Change in business inventories				1.3
Nonfarm				1.3
Farm				0
Government purchases	-3.8	-4.1	-.3	-.8
Federal	-13.6	-14.4	-.8	-.8
National defense	-22.0	-21.8	.2	.1
Nondefense	6.7	2.9	-3.8	-1.0
State and local	2.3	2.3	0	0
Addenda:				
Final sales of domestic product	5.3	5.7	.4	5.3
Gross domestic purchases price index (fixed weights) ¹	2.5	2.6	.1	
GDP price index (fixed weights) ¹	2.6	2.6	0	

1. Based on 1987 weights.

NOTE.—Final estimates for the fourth quarter of 1994 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for December.

Nonresidential fixed investment: Revised construction put in place for November and December, revised manufacturers' shipments of equipment for December, and revised shipments of complete civilian aircraft for December.

Residential investment: Revised construction put in place for November and December.

Change in business inventories: Revised manufacturing and trade inventories for December.

Net exports of goods and services: Revised exports and imports of goods for December; revised exports and imports of services for the quarter; and revised territorial adjustments.

Government purchases: Revised State and local government construction put in place for November and December.

Net interest: Financial assets held by households for the quarter and net interest from the rest of the world for the quarter.

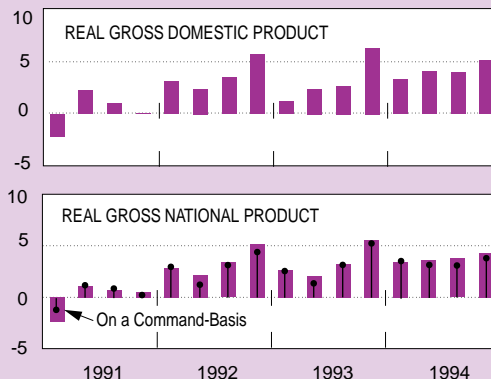
Corporate profits: Domestic book profits and profits from the rest of the world for the quarter.

GDP prices: Revised housing prices for the quarter and revised export and import prices for the quarter.

CHART 1

Selected Product Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

percentage point higher than the preliminary estimate.

The final estimates of the fixed-weighted price indexes for both gross domestic purchases and GDP show increases of 2.6 percent, little changed from the preliminary estimates.

The increase in real disposable personal income was revised down 0.2 percentage point to 7.5 percent. The personal saving rate was unrevised at 4.6 percent.

Alternative measures.—In the fourth quarter, BEA's chain-type annual-weighted measure of real GDP increased 4.0 percent, 1.1 percentage points less than the fixed-1987-weighted measure of GDP; the benchmark-years-weighted alternative measure of real GDP increased 4.1 percent. About three-fifths of the difference between the fixed-weighted measure and the alternative measures was accounted for by a strong increase in purchases of computers, a product whose prices have decreased steadily since 1987.

Both of the alternative measures of gross domestic purchases prices increased less in the fourth quarter than the fixed-1987-weighted measure. The chain-type measure increased 2.4 percent—0.2 percentage point less than the fixed-weighted measure; the benchmark-years-weighted measure increased 2.5 percent.

Table 2.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars

(Seasonally adjusted at annual rates)

	Billions of 1987 dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter		1994:III	1994:IV
		1994:IV	1994:III		
Gross domestic product	5,433.8	52.9	66.8	4.0	5.1
Plus: Receipts of factor income from the rest of the world	143.2	10.7	5.4	38.2	16.6
Less: Payments of factor income to the rest of the world	161.0	14.2	16.1	51.1	52.4
Equals: Gross national product	5,416.0	49.4	56.1	3.8	4.3
Less: Exports of goods and services and receipts of factor income from the rest of the world	841.1	33.3	36.8	18.4	19.6
Plus: Command-basis exports of goods and services and receipts of factor income	853.8	28.0	35.2	14.9	18.3
Equals: Command-basis gross national product	5,428.7	44.1	54.5	3.4	4.1
Addendum: Terms of trade ¹	101.5	—7	—3	—2.7	—1.2

1. Ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in NIPA tables 1.10 and 1.11.

Gross national product (GNP).—Real GNP increased 4.3 percent in the fourth quarter, 0.8 percentage point less than the increase in real GDP (chart 1 and table 2).² Payments of factor income to the rest of the world increased more than receipts of factor income; interest income accounted for nearly all the increase in both payments and receipts.

Real GNP on a command basis increased slightly less than real GNP in the fourth quarter—4.1 percent, compared with 4.3 percent—reflecting a deterioration in the terms of trade.³ In the third quarter, command-basis GNP also increased less than GNP—3.4 percent, compared with 3.8 percent.

Corporate Profits

Profits from current production increased \$4.3 billion in the fourth quarter after increasing \$9.6 billion in the third (table 3).⁴ (The Census Bureau has accelerated the schedule for tabulation of fourth-quarter profits reports in the Quarterly Financial Report (QFR) program; as a result, the national income and product accounts (NIPA) estimates of corporate profits published in March include complete QFR tabulations and will not be revised next month.)

The fourth-quarter increase was more than accounted for by domestic operations of nonfinancial corporations. Real gross product of these corporations increased, and unit profits edged up, as unit costs decreased slightly and unit prices were unchanged.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, decreased \$3.3 billion after increasing \$3.9 billion. The ratio of cash flow to nonresidential fixed investment—a measure of the share of current levels of investment that could be financed by

2. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. In the estimation of real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of imports of goods and services is deflated by import prices, and the current-dollar values of receipts and payments of factor income are deflated primarily by the implicit price deflator for net domestic product. In the estimation of command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar value of exports of goods and services and receipts of factor income is deflated by the implicit price deflator for imports of goods and services and payments of factor income. The terms of trade is measured by the ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports, with the decimal point shifted two places to the right.

4. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment (IVA), and the capital consumption adjustment (CCAdj); it is shown in NIPA tables 1.14, 1.16, and 6.16C as "Corporate profits with IVA and CCAdj."

internally generated funds—decreased to 77.6 percent; the decrease was the fifth in succession.

Related measures.—Industry profits increased \$2.9 billion after increasing \$9.5 billion.⁵ Among nonfinancial industries, increases in manufacturing and in the transportation and public utilities group more than offset small decreases in trade and in “other” nonfinancial industries. In manufacturing, the largest increases were in chemicals and allied products, in industrial machinery and equipment, and in “other” durable goods. In the transportation and public utilities group, the largest increase was in communications. The small decrease in trade was accounted for by wholesale trade; retail trade was virtually unchanged, as decreases in general merchandise and in food stores were offset by increases in auto dealers and in “other retail.”

5. Industry profits are estimated as the sum of profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C. Estimates of the capital consumption adjustment by industry do not exist.

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level	Change from pre- ceding quarter	
	1994:IV	1994:III	1994:IV
Billions of dollars			
Profits from current production	560.3	9.6	4.3
Domestic industries	500.6	10.0	4.9
Financial	90.8	5.7	-5.8
Nonfinancial	409.8	4.4	10.7
Rest of the world	59.7	-4	-6
IVA	-32.1	-5.5	-12.5
CCAAdj	38.8	.1	1.3
Profits before tax	553.5	15.0	15.4
Profits tax liability	215.6	6.9	7.0
Profits after tax	337.9	8.1	8.4
Cash flow from current production	568.8	3.9	-3.3
Profits by industry:			
Corporate profits with IVA	521.4	9.5	2.9
Domestic industries	461.7	9.9	3.6
Financial	107.2	6.2	-5.4
Nonfinancial	354.5	3.7	9.0
Manufacturing	150.9	.3	7.6
Trade	69.2	-1.9	-9
Transportation and public utilities	78.2	1.2	3.8
Other	56.2	4.1	-1.5
Rest of the world	59.7	-4	-6
Receipts (inflows)	90.0	10.8	.1
Payments (outflows)	30.3	11.2	.7
Dollars			
Unit price, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.175	.005	0
Unit labor cost .....	.768	.002	0
Unit nonlabor cost .....	.279	.003	-.001
Unit profits from current production .....	.128	0	.001

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment

CCAAdj Capital consumption adjustment

Profits of financial industries decreased \$5.4 billion after increasing \$6.2 billion. The decrease was accounted for by commercial and mutual depository institutions.

Profits from the rest of the world decreased \$0.6 billion after decreasing \$0.4 billion. This component of profits measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Both receipts and payments increased a little in the fourth quarter.

Profits before tax increased \$15.4 billion. The difference between this increase and the \$4.3 billion increase in profits from current production mainly reflects an increase in inventory profits, which (with the sign reversed) are measured in the NIPA's as the inventory valuation adjustment.

Government Sector

The fiscal position of the government sector deteriorated in the fourth quarter of 1994, as the combined deficit of the Federal Government and of State and local governments increased \$2.2 billion, to \$132.3 billion (table 4). The deterioration was more than accounted for by the Federal Government deficit; the State and local government surplus increased.

Federal

The Federal Government deficit increased \$7.1 billion in the fourth quarter, to \$161.1 billion, after increasing \$8.9 billion in the third. Receipts and expenditures both accelerated, but the pickup in receipts exceeded that in expenditures.

Receipts.—Receipts increased \$20.0 billion in the fourth quarter after increasing \$8.1 billion in the third. The acceleration was mostly accounted for by personal tax and nontax receipts.

Personal tax and nontax receipts increased \$7.3 billion after decreasing \$4.2 billion. The third-quarter decrease followed a second-quarter boost in tax receipts from the effects of the Omnibus Budget Reconciliation Act of 1993 that retroactively increased tax rates for high-income taxpayers. Withheld personal income taxes increased \$8.3 billion after increasing \$5.1 billion, reflecting an acceleration in wages and salaries.

Contributions for social insurance increased \$7.0 billion after increasing \$4.6 billion. The step-up reflected the acceleration in wages and salaries.

Corporate profits tax accruals increased \$5.7 billion after increasing \$6.1 billion. Excluding

payments to the U.S. Treasury by Federal Reserve banks (which are treated as taxes in the NIPA's), corporate profits tax accruals increased \$5.5 billion after increasing \$5.0 billion, reflecting the acceleration in corporate profits.

Expenditures.—Expenditures increased \$27.1 billion in the fourth quarter after increasing \$16.9 billion in the third. An upturn in subsidies less current surplus of government enterprises and a

pickup in transfer payments were partly offset by a downturn in purchases.

Subsidies less the current surplus of government enterprises increased \$8.9 billion after decreasing \$10.4 billion. The upturn was mostly attributable to agricultural subsidies, which increased \$8.3 billion after decreasing \$8.4 billion.

Transfer payments increased \$16.2 billion after increasing \$6.8 billion. Transfer payments to the rest of the world and to persons both contributed to the acceleration. Transfer payments to the rest of the world increased \$10.3 billion after increasing \$1.7 billion. The fourth-quarter increase was more than accounted for by \$12.0 billion (annual rate) in economic support payments and other payments to Israel. Transfer payments to persons increased \$6.0 billion after increasing \$5.0 billion. Step-ups in social security benefits (old-age, survivors, and disability insurance) and in supplemental security income were partly offset by decreases in unemployment benefits.

Net interest paid increased \$9.1 billion after increasing \$5.6 billion. The pickup was mainly attributable to interest paid on the public debt, which increased \$9.5 billion after increasing \$6.8 billion.

Purchases decreased \$12.4 billion after increasing \$9.2 billion. Defense purchases decreased \$15.2 billion after increasing \$8.8 billion, the largest increase since 1991; the drop resumed a downtrend in defense purchases, which have decreased in 11 of the last 15 quarters, and it was the largest percentage decrease in defense purchases since the second quarter of 1954. All major categories of defense purchases contributed to the drop. Services decreased \$7.0 billion after increasing \$5.5 billion; most of the downturn was accounted for by weapon support, installation support, and research and development. Military durable goods decreased \$8.4 billion after increasing \$1.0 billion. Most of the downturn was accounted for by aircraft and ships; within aircraft, B-2 bomber deliveries decreased from two in the third quarter to one in the fourth.

Nondefense purchases increased \$2.8 billion after increasing \$0.3 billion. The acceleration was more than accounted for by step-ups in services and structures and by an upturn in non-durable goods. The step-up in services was more than accounted for by compensation of non-defense employees, which increased \$0.9 billion after decreasing \$2.6 billion; within compensation, incentive payments ("buyouts") for civilian employees who voluntarily leave Federal service

Table 4.—Government Sector Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
		1993	1994			
			IV	I	II	III
Government sector						
Receipts	2171.0	54.5	31.1	55.4	17.0	32.1
Expenditures	2303.3	39.1	-3.4	22.4	29.0	34.3
Surplus or deficit (-)	-132.3	15.4	34.5	33.0	-12.0	-2.2
Social insurance funds	120.6	3.2	9.6	4.3	0	1.2
Other	-252.9	12.2	24.9	28.6	-11.9	-3.4
Federal Government						
Receipts	1408.8	40.9	23.9	43.2	8.1	20.0
Personal tax and nontax receipts	574.2	9.3	13.4	20.9	-4.2	7.3
Corporate profits tax accruals	178.1	17.6	-6.0	14.5	6.1	5.7
Indirect business tax and nontax accruals	91.9	8.4	-3	0	1.5	0
Contributions for social insurance	564.6	5.6	16.8	7.9	4.6	7.0
Expenditures	1569.9	36.1	-20.0	12.2	16.9	27.1
Purchases	431.9	-2.9	-2.0	-2.7	9.2	-12.4
National defense	285.3	.1	-7.4	0	8.8	-15.2
Nondefense	146.6	-2.9	5.4	-2.6	.3	2.8
Transfer payments (net)	699.2	13.9	-2.6	4.7	6.8	16.2
To persons	674.5	3.9	10.1	3.6	5.0	6.0
To rest of the world	24.7	10.0	-12.7	1.1	1.7	10.3
Grants-in-aid to State and local governments	205.5	9.2	-7.0	4.4	5.9	5.2
Net interest paid	203.5	-1	-4.2	9.5	5.6	9.1
Subsidies less current surplus of government enterprises	29.8	16.0	-4.2	-3.8	-10.4	8.9
Subsidies	34.2	15.5	-3.9	-3.1	-8.7	8.3
Of which: Agricultural subsidies	8.8	15.5	-4.9	-3.4	-8.4	8.3
Less: Current surplus of government enterprises	4.4	-5	.3	.7	1.7	-6
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	-161.1	4.8	43.9	31.1	-8.9	-7.1
Social insurance funds	55.5	3.3	10.0	4.2	.6	1.4
Other	-216.6	1.5	33.9	26.8	-9.4	-8.5
State and local governments						
Receipts	967.7	22.8	.3	16.5	14.7	17.4
Personal tax and nontax receipts	180.6	2.3	2.7	2.4	2.0	3.3
Corporate profits tax accruals	37.5	4.0	-1.4	3.1	.8	1.3
Indirect business tax and nontax accruals	472.0	6.6	5.2	5.8	5.3	6.7
Contributions for social insurance	72.1	.7	.8	.8	.8	.8
Federal grants-in-aid	205.5	9.2	-7.0	4.4	5.9	5.2
Expenditures	938.9	12.2	9.6	14.7	17.8	12.5
Purchases	753.8	7.2	4.6	9.5	13.0	9.3
Of which: Structures	108.5	3.0	-5.8	2.3	4.4	2.6
Transfer payments to persons	281.3	5.7	5.7	6.4	6.1	4.5
Net interest paid	-55.6	-2	-5	-5	-5	-5
Less: Dividends received by government	11.3	.1	.2	.1	.1	.4
Subsidies less current surplus of government enterprises	-29.3	-4	-1	-6	-6	-4
Subsidies .....	.4	0	0	0	0	0
Less: Current surplus of government enterprises	29.7	.4	.2	.6	.5	.5
Less: Wage accruals less disbursements	0	0	0	0	0	0
Surplus or deficit (-)	28.8	10.6	-9.3	1.8	-3.1	4.9
Social insurance funds	65.1	-1	-3	0	-6	-2
Other	-36.3	10.7	-9.0	1.8	-2.5	5.1

NOTE.—Dollar levels are found in tables 3.2 and 3.3 of the "Selected NIPA Tables."

increased \$1.0 billion after decreasing \$2.1 billion. Other services turned down, notably research and development for the National Aeronautics and Space Administration. The upturn in nondurable goods was more than accounted for by a downturn in sales of Commodity Credit Corporation inventories.⁶

Grants-in-aid to State and local governments increased \$5.2 billion after increasing \$5.9 billion. Downturns in education, medical research, food and nutrition programs, and highways were partly offset by an upturn in medicaid.

State and local

The State and local government surplus increased \$4.9 billion in the fourth quarter, to \$28.8 billion, after decreasing \$3.1 billion in the third. The

6. Sales, except those by government enterprises for goods and services similar to those provided by the private sector, are treated as deductions from government purchases.

turnaround was attributable to an acceleration in receipts and a deceleration in expenditures.

Receipts increased \$17.4 billion after increasing \$14.7 billion. Indirect business tax and non-tax accruals increased \$6.7 billion after increasing \$5.3 billion. Personal tax and nontax receipts increased \$3.3 billion after increasing \$2.0 billion. Reflecting the acceleration in corporate profits, corporate profits tax accruals increased \$1.3 billion after increasing \$0.8 billion. Federal grants-in-aid increased \$5.2 billion after increasing \$5.9 billion; the deceleration was more than accounted for by downturns in education, medical research, food and nutrition programs, and highways.

Expenditures increased \$12.5 billion after increasing \$17.8 billion. Most of the deceleration was accounted for by purchases, which increased \$9.3 billion after increasing \$13.0 billion. Structures accounted for half of the slowdown in purchases. 